# Council on Postsecondary Education July 30, 2001

# **Kentucky Innovation Act Program Application Criteria**

Action: The staff recommends that the council approve the application criteria, the process for submission of an application, and the structure and type of outside expertise or peer review used in the application review process proposed by the Kentucky Science and Technology Corporation for awarding grants under three of the four programs administered by it on behalf of the council: Rural Innovation Program, Research and Development Voucher Program, and Commercialization Fund Program.

(A copy of the proposed application criteria, submission process, and structure of outside peer review has been posted to the council's Web site at <a href="www.cpe.state.ky.us">www.cpe.state.ky.us</a> and has been sent to each council member.)

Funding for the three programs is appropriated to the council, which has policy leadership for the programs. As directed or allowed by the act, the council has contracted with the Kentucky Science and Technology Center to administer these three programs. For additional background, see Agenda Item E-3 from the council's July 17, 2000, meeting.

The act gives the council the right and obligation to approve 1) the application criteria, 2) the process for submission of an application, and 3) the structure and type of outside expertise or peer review used in the application review process for the three programs.

The act also gives the council the right to final approval on all Commercialization Fund Program awards. As a practical matter, the recommended application criteria and procedures delegate to the KSTC the right to approve Commercialization Fund Program awards.

By approving the program application criteria and related procedures, the council enables the KSTC to issue the first request for applications. Pending the council's approval, the KSTC plans to do so in early August. The council will not review and approve individual program applications for the Research and Development Voucher Program, the Commercialization Fund Program, and the Rural Innovation Program once it has approved the program application criteria and procedures. The KSTC will be responsible for reviewing and approving individual applications for the three programs, in accordance with the council-approved criteria and procedures. As the KSTC administers the three programs, it will continue to work closely with council staff, the Office of the New Economy in the Cabinet for Economic Development, the Kentucky Innovation Commission, and other relevant state agencies. The KSTC will provide information on program status and particularly on program awards so that council staff can report to the council at each council meeting.

The council, working with the Office of the New Economy, will recommend overall program performance indicators and benchmarks to the Kentucky Innovation Commission in early 2002.

The act also appropriated funding to the council for the creation of regional technology corporations (the fourth of the four programs for which the council has policy leadership under the act). The council has the right to final approval of creation and continuance of any regional technology corporation (none have been proposed yet). The council has contracted administration of the regional technology corporations program to the KSTC. The council staff expects to recommend application criteria and procedures for the regional technology corporations at the September council meeting.

# The Kentucky Innovation Act

Applied Commercialization Programs

# Submitted to Council on Postsecondary Education

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# **Chapter 1 - The Kentucky Innovation Act**

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# **Background**

Information technology, communications, and intellectual capital, rather than energy and raw materials, power today's economy. The driving forces of the new economy are ideas, knowledge services, and higher-order skills.

# **Enabling Legislation**

There is established and created in the State Treasury funds entitled the "Kentucky Rural Innovation Fund (KRS 164.6027c)," "Kentucky Research and Development Voucher Fund (KRS 164.6019c)," and "Kentucky Commercialization Fund (KRS 164.6035c)," for the purpose of enabling Kentucky-based firms and institutions to undertake research and development, and entrepreneurial innovation work in partnership with postsecondary institutions and third parties in the Commonwealth.

Under the Kentucky Innovation Act (KRS 164.6043c), the Council on Postsecondary Education is directed to create nonprofit regional technology corporations (RTCs). The regional technology corporations shall act as intermediary organizations delivering services and providing resources to knowledge-based clusters primarily in rural areas of Kentucky. Public and private organizations, including comprehensive universities and other postsecondary institutions, may participate in activities organized by the regional technology corporations.

According to the Act, CPE is to contract with a science and technology organization to administer the Regional Technology Corporation program. CPE has contracted with the Kentucky Science and Technology Corporation to administer this program, but CPE must approve the application criteria, the process for submission of an application, and the structure and type of outside expertise or peer review used in the application review process in this program.

#### **CPE - KSTC Contract**

On behalf of the state, KSTC has the authority to review applications, qualify companies, and certify qualified companies. KSTC shall conduct an independent review with the use of outside experts to evaluate each application. Following the application review, KSTC shall make a determination of the application and may determine that the applicant is a qualified company as defined by the Kentucky Innovation Act.

Upon a qualified company's presentation of a legal agreement or contract meeting the conditions of an applied program, KSTC shall present both qualified company and university with a certification authorizing funding.

#### **Document Structure**

This document contains the specific goals, eligibility, selection criteria and process for each of the Applied Programs in KIA. KSTC has developed a generic application process that is custom tailored to each program. This document should be read as a single

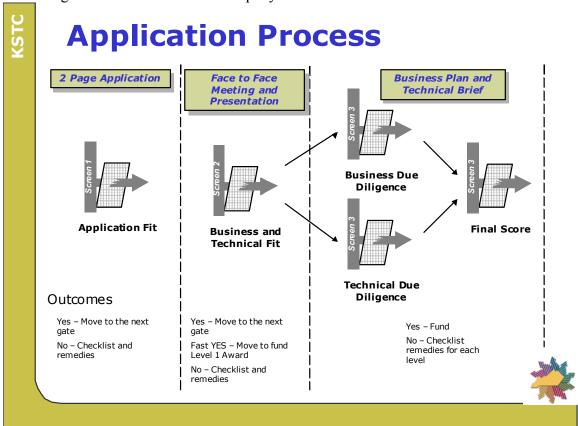
document; Chapters should not be read in isolation. Each Chapter refers to Chapter One as its foundation

# **Generic Application Process**

A generic application process has been developed and customized for each applied program to account for specific needs and criteria of each program. The majority of the underlying process will be similar.

#### **Process Intent**

The intent of the process is to invest funds in those companies that meet the goals of the program, have the best chance of commercial success and help educate startup entrepreneurs on the process of raising capital. To that end, the application and review process has been designed to emulate the process that venture capitalists deploy when reviewing investment candidates. The process is progressive and intense and provides increasing levels of details as the company moves forward.



At each screen a company will be informed of status. If a company fails a screen, KSTC will provide a remedy checklist to the company that outlines what criteria were not met and provides suggested remedies for each deficiency. Funded companies will be followed throughout the life of the investment.

## **Application Criteria**

Application criteria consist of eligibility guidelines as defined by the legislation, and selection criteria, created to judge the soundness of the proposal. Eligibility guidelines are specific measures that each company must exhibit whereas, selection criteria are a framework of technical and business criteria to be judged and assessed by a group of independent business and technical experts. The selection process begins with an application review to determine if the base eligibility requirements have been met and moves through successive screens that enable a thorough understanding of the technical soundness and business proposition put forth by the company. The process is purposefully similar to private processes that venture capitalists apply when reviewing potential investments.

Generally, the company will need to pass three screens before it will be funded. The screens are as follows:

- 1) Application Screen review and fit of application
- 2) Meeting Screen face-to-face meeting to judge applications fit, business fit and technical fit
- 3) Due Diligence Screen detailed assessment of technical feasibility and merit as well as business qualification and likelihood of success. Due diligence will be conducted by a panel of experts both internal to KSTC and external

#### **Screening Process**

The review process consists of the following screens:

- 1) Application review (Screen 1)
- 2) Meeting and presentation review (Screen 2)
- 3) Business due diligence (Screen 3)
- 4) Technical due diligence (Screen 3)

Investments will be made in companies who meet standards set at each screen. Each screen will use a scoring tool based on the screen criteria. The tools will provide a quantitative output that will be weighed against industry knowledge, expertise and judgment to arrive at a decision per each screen. The quantitative measure is but one tool used to review companies.

#### **Application Review**

Applicants will submit a brief application outlining company criteria, business proposition and technical description. The application will measure program, business and technical fit per the guidelines. Subjective assessments of technical merit and business fit will shape the outcome.

#### **Disclosure**

Applicants must disclose family relations to any KSTC employee, KSTC board member, lobbyist organization, state legislator or state official, application reviewers or any other state funded agency.

#### **Meeting and Presentation Review**

Once the company has fit the program criteria and the technical and business descriptions warrant further investigation, the company will be asked to present its idea in a face-to-face meeting. The purpose of this meeting is to further examine the application and team to better determine program fit, and soundness of concept and likelihood of success.

## **Due Diligence**

Due diligence is broken into two categories, business due diligence and technical due diligence. Each activity is separate and can be conducted in parallel.

#### **Business Due Diligence**

Prior to due diligence, the company will complete a business plan per the attached outline. The business due diligence will focus on the team (background and training), its understanding of the market and competition, issues concerning technical commercialization and the ability for the team to execute on this plan. Additionally, as part of the business due diligence, a preliminary patent search should be conducted with findings noted.

# **Technical Due Diligence**

Part of the technical due diligence will be the submission of a technical brief that outlines and defines the technology, the productization issues around the technology and the team that will conduct the research.

## **Due Diligence Teams**

Due diligence teams will be assigned to a company once the company passes through Screen 2 – the meeting and presentation screen. Teams will be comprised of both KSTC staff and external experts. Team selection will comply with industry best practices and guidelines. Where specific technologies or business processes can be identified, KSTC will complete an industry search to identify and engage the appropriate expertise. In the case of specific technologies, companies will be required to identify five technical experts in the specific field. KSTC will contact those experts and request five additional experts from each. This will give us a large, blind pool to draw from.

KSTC will form a Public Review Panel comprised of experts from the public sector. This panel will vary in size and be assembled by technical discipline. Each member must be from the public sector and not involved in any private ventures. The intent is to best contain a company's innovation within non-competitive hands. The Panel will expand and contract in size, as resources are needed. Panel members will sign a service contract with KSTC that encompass general work guidelines and confidentiality conditions. The process of review will be conducted such that no copies of a company's technical brief, or other documents, leave the physical location of KSTC in order to manage distribution of sensitive materials.

CPE/KSTC shall conduct an independent review with the use of outside experts to evaluate each application. Following the application review, KSTC shall make a

determination of the application and may determine that the company is a qualified company as defined under the Kentucky Innovation Act.

#### **General Selection Criteria**

The general guidelines outlined in the legislation are as follows:

- 1) Each proposed project shall be likely to:
  - a. Produce a measurable result and be technically sound;
  - b. Lead to innovative technology or new knowledge;
  - c. Lead to commercially successful products, processes, or services within a reasonable period of time;
  - d. Show significant potential for stimulating economic growth and a reasonable probability to enhance employment opportunities within rural Kentucky.
- 2) Each application shall include, but not be limited to the following information:
  - a. Verification that the company is an eligible company, a Kentucky-based company, a small company, and is located in a rural area of the state;
  - b. Written justification that the project application is consistent with the program purposes;
  - c. A research, development, and entrepreneurial plan that is sufficient in scope for review;
  - d. A detailed financial analysis that includes the commitment of resources by the company and others;
  - e. Sufficient detail concerning proposed project partners, type and amount of work to be performed by each partner, and expected product or service with estimated costs to be reflected in the negotiated contract or agreement; and
  - f. A statement of the economic development potential of the project.

# **Performance Monitoring**

Companies will be subject to midterm review to assess progress against predefined milestones. Funding the second half of an investment will be contingent upon successfully passing the midterm assessment. If a company fails to meet midterm goals, a corrective action plan can be submitted to gain access to the remaining funds. Companies would have to demonstrate successful completion of the corrective action plan before additional investment would be made. KSTC reserves the right to waive midterm results report if meaningful progress has been made towards commercialization of the technology in question.

# **Notification of Unsuccessful Proposals**

Applicants that fail to successfully meet screen requirements will be contacted via written notification within 45 days of the screening results. Further, each company will be given a remedy sheet that summarizes areas that need to be corrected to be a more competitive applicant. For cases that do not meet specific requirements, those requirements will be spelled out as part of the notification.

#### **Public Notification**

All forms of media will be used to inform the public of the availability of the programs and how to apply. KSTC will develop an extensive web site containing FAQs, forms and guides on how to complete the application, what the criteria are for the programs and what constitutes a well-written application and business plan. Further, KSTC will use appropriate private and public channels to ensure widespread communications. Examples may include chambers of commerce, rotaries, business organizations, interest groups, etc.

The KSTC database allows communications to be optimized around email, fax, and direct mailing depending on the target's capabilities.

## **Application Timetable**

Applications will be accepted the first day of each fiscal quarter beginning October 1<sup>st</sup>, 2001. Level 1 investments (see Rural Innovation Fund, Chapter 2) will be processed and applicants notified within 45 days of receipt of the application. Level 2 (see Rural Innovation Fund, Chapter 2) investments will be notified 120 days after receipt. The table below outlines the timing of the application process:

Step	Date	Notes
Public Notification	3 weeks prior to application	Begin marketing campaign
Reminder	deadline	to notify public of
		upcoming quarterly
		deadline
Applications Received	Day 1 of quarter	Applications can be
		received prior to this date
		but will not be processed
		until Day 1. Applications
		received after Day 1 will be
		processed in the next
		quarter.
Level 1 Investment	Day 30	
Notification		
Screen 1 Acceptance	Day 10	
Screen 2 Acceptance	Day 45	
Screen 3 Acceptance and	Day 120	Money to be awarded
Level 2 investments		
Midterm review	6 months after reward	Midpoint check in to
		determine milestone
		progress and funding of
		remaining money.

#### **General Investment Issues**

A single company cannot be awarded multiple investments over the same period, but can be awarded multiple investments over different time periods as long as the new application is for a different project.

Program monies can be applied to indirect costs at a rate not to exceed 10% of indirect costs.

Companies can apply to multiple KIA programs for the same project as long as the project meets the guidelines of the individual programs and is successfully judged to be viable.

Upon request and review of progress to date, no cost time extensions will be considered.

#### **Confidentiality**

KSTC will not enter into confidentiality agreements with companies seeking funding in the Applied Programs. A company's intellectual property (trade secrets, patents, etc.) is protected under KRS 164 from open record policies. All third party reviewers and experts will be under consulting agreements with KSCT, which will include confidentiality agreements.

#### **Contact Information**

For more information regarding the Applied Commercial Programs contact:

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# **Chapter 2 - Rural Innovation Fund**

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# **Program Goals**

To provide pre-seed and seed stage capital investments in <u>knowledge-driven rural</u> <u>companies</u> to determine <u>proof of concept</u> for commercializing viable products, processes or services.

# **Program Purpose**

The purposes of these investments are to:

- (a) Accelerate knowledge transfer and technological innovation that improve economic competitiveness and spur economic growth in rural, Kentucky-based, small companies;
- (b) Support entrepreneurial activities that have clear potential to lead to commercially successful products, processes, or services within a reasonable period of time:
- (c) Stimulate growth-oriented enterprises within the Commonwealth;
- (d) Encourage partnerships and collaborative projects between private enterprises, Kentucky's postsecondary institutions, research organizations, and the Small Business Development Center Network in Kentucky; and,
- (e) Promote research, development, and entrepreneurial activities that are driven by private sector requirements.

Voucher investment funds may be used for those entrepreneurial training topics specified in KRS Chapter 154.01-750(4), if they meet particular objectives of a qualified company as delineated in the project application.

# **Eligibility**

Rural, Kentucky-based, small companies that undertake research, development, and entrepreneurial innovation and work in partnership with Kentucky postsecondary institutions, the Small Business Development Center Network in Kentucky, and other entities engaged in research and development work (see definitions in Appendix A).

#### Investment Guidelines

#### Level 1 Investment

Level 1 Investments are defined as those projects that show strong initial promise but need additional research to qualify for full program support. Level 1 Investments are made to a qualified company that shall not exceed a one-time investment of up to \$7500.

#### **Level 2 Investment**

The amount of a voucher fund Level 2 investment to a qualified company shall not exceed twenty-five thousand dollars (\$25,000) each year for two (2) years, up to a maximum of fifty thousand dollars (\$50,000) (which could include a Level 1 investment).

#### **Investment Prerequisites**

Certification of successful applicants shall:

- (a) Negotiate an agreement and funding contract with one (1) or more of Kentucky's postsecondary institutions, the Small Business Development Center Network for approved project activities specified under KRS 154.01-750(4), or other entity engaged in the research and development work that is satisfactory to CPE, to undertake the research and development and entrepreneurial work; and
- (b) Provide assurance to CPE that the collaborating parties have adequately addressed the ownership and disposition of patents, royalties, and all other intellectual property rights, and equity or related position relating to the contract between the qualifying company and a partnering entity; and,
- (c) Prior to certifying a qualified company, CPE/KSTC may negotiate with the qualified company the ownership and disposition of patents, royalties, all other intellectual property rights, and an equity or related position on behalf of the Kentucky Rural Innovation Fund for the sole purpose of reinvesting and sustaining a revolving fund to carry out the provisions the RIF.

A certification authorizing voucher funding shall be presented to a qualified company upon presentation of a legal agreement or contract meeting the conditions of the RIF.

When CPE is satisfied that the KSTC has certified a qualified company as defined in the Kentucky Innovation Act, CPE shall issue a voucher to the certified company for the requested amount and upon the university's presentation of the voucher to CPE shall pay the face amount of the voucher to the qualified institution receiving the voucher from the company. CPE shall be entitled to rely upon the KSTC's certification and authorization of voucher funding when issuing the voucher and disbursing the investment amount.

# **Application Process**

The generic process has been tailored to meet the specific needs of the Rural Innovation fund, namely the business plan has been scaled back to a business summary. This was done to better align requirements with investment levels and lifecycle of the company.

# **Application Review Process – Screen 1**

Companies will be subject to an application review process as outlined in Chapter 1 of this document. The generic process will be customized to meet the criteria and purpose of the Rural Innovation Fund. Each company will be required to pass three screens: 1) Application, 2) Face to face meeting and 3) due diligence. Outlined below are the custom screens, company requirements and scorecards for each screen.

# **Rural Innovation Fund Application Outline – Screen 1**

#### I. Cover Sheet

a) Contact Information

- b) Brief description of proposal (25 words or less)
- c) Amount of funds requested
- d) Applied program
- e) Legal structure
- f) Legal address, specific location
- g) Number of employees

#### II. Narrative (not to exceed one page per question)

- 1) Briefly describe your company. How long have you been in existence? What products and markets do you make/serve? How many employees do vou have?
- 2) Briefly describe the technology and its innovative application. Describe the state of the technology relative to being ready to sell. Identify the challenges to selling the technology?
- 3) What market are you targeting for the technology? How large is the market? How do you expect to serve that market?
- 4) Are you working with anyone to help develop this technology? Describe your relationship and provide all background information regarding the organization or individual.

Rural Innovation Fund Screen One Application Fit		
Date Applicant Applicant Number Criteria	Weighting Score	e (1·Notes
	10	
1 Legal structure	Requirement	Must be KY based
Knowledge driven     Rural based	Requirement	Project includes innovative technology
3 Rurai based	Requirement	Not in Fayette, Jefferson, Boone, Kenton or Campbell counties
4 Small (<50 employees)	Requirement	<50 employees
5 Development partnership	Requirement	- The completes
6 Business application	60%	Subjective assessment of the business practicalit of the project and overall impact on economy
	40%	Subjective assessment of the technical soundness

# **Example Application**

Authorized Signature

# Contact Information Application Identification Number (for KSTC use only) Name of Applicant Amount of funds applying for **Name of Company** Rural Innovation Fund Application Award applying for Address Level 1 Level 2 **Work Phone Tax Identification Number Home Phone Legal Structure** Fax **Date of Incorporation Email Number of Employees** Disclosure Are you a lobbyist or related to one? If so, what organizations are you or **Company Headquarters** your relations affiliated with? Brief Description of proposal (25 words or less)

Date

Complete the following questions. You may use additional pages, but no more than one page per question (total of 4). Staple additional pages to the application. All work must be typed.

- 1. Briefly describe your company. How long have you been in existence? What products and markets do you make/serve? How many employees do you have?
- 2. Briefly describe the technology and its innovative application. Describe the state of the technology relative to being ready to sell. Identify the challenges to selling the technology.
- 3. What market are you targeting for the technology? How large is the market? How do you expect to serve that market?
- 4. Are you working with anyone to help develop this technology? Describe your relationship and provide all background information regarding the organization or individual.



#### **Interview Outline – Screen 2**

Applicants should be prepared to discuss their application in greater detail and specifically focused on the following business and technical issues:

- 1) Business
  - a) Company history
  - b) Product description
  - c) Addressable market
  - d) Competitive landscape
  - e) Value proposition
- 2) Technical
  - a) Status of technology
  - b) Scope of underlying technology
  - c) Commercialization issues
- 3) Development partnership

# Scorecard – Screen 2

#### Rural Innovation Fund

Screen Two

Meeting and Presentation

Date

Applicant

Applicant Number			
Criteria	Weighting	Score 10)	(1·Notes
1 Business Fit	60%		
<ul> <li>Company history</li> </ul>			How much has been invested, what are the goals?
<ul> <li>Product description</li> </ul>			Clearly articulate what the technology will become.
<ul> <li>Addressable market</li> </ul>			How large is the market and what is the growth rate?
- Competitive landscape			Who gets displaced? What is unique? What will their response be?
<ul> <li>Value proposition</li> </ul>			Who is the buyer and what is their behavior? How do they buy and why would they buy yours?
- Team			Bios, track record and synergies.
<ul> <li>Financial models</li> </ul>			How sophisticated?
2 Technical merit	30%		
- Status of technology			How far along is development? What are the major hurdles?
- Scope of underlying tech			Innovativeness of technology. Is this groundbreaking or add-on?
- Commercialization issues			Will it scale? What are the performacne issues? Are there manufacturing considerations? Cost considerations?
3 Development partnership	10%	_	Provide details of the partnership.
	100%		

#### **Business Summary Outline – Screen 3**

The business summary is a 5-8 page document that clearly and concisely describes the company, the product or technology, the team and the unique proposition that the product or technology affords relative to other offerings.

#### **Executive Summary (1 Page)**

The executive summary is a concise narrative of the business plan and therefore should be written once the complete plan is done.

- Company origin
- The product and underlying technology including the company's competitive advantage or unique contribution
- Market potential
- Team bios and track record
- Amount of capital sought
- Other factors important to the company's success

#### **Business Summary Outline**

# Company Description

Convey a sense of history and goals of the company. How was the product originated? Who were the originators? Why is the product or technology considered worthwhile? What steps have been taken to establish a company around the idea? Include a summary of the company's principal objectives.

#### Management

Identify key members of the management team, describe their responsibilities, and set forth their relevant experience and accomplishments. Complete resumes should be attached in an appendix. Focus on unique abilities of each player and the synergy created by the combination of talent. Gaps in skills and strategies to supplement those gaps should be noted.

#### The Product

Describe what the product is or will be relative to competitive products and why the product has promise to penetrate the existing or developing market. Describe product use and function and what needs it is intended to serve. Describe distinctive features and the advantages and drawbacks of those features. Address attributes, cost, quality and reliability and price of the product. Where there is technical development, the nature, status and scope of underlying technology is necessary to assess technical risk inherent in the development process.

#### Marketing and Sales

Identify, describe and analyze the target market. The size, growth rate and the forces (or needs) driving it and how it is segmented should be discussed. Describe the target purchaser, where they are located and what motivates their buying decisions. What is the

significance (ranking) of price, quality, performance, sales method, service and warranty and other relevant criteria?

#### Competition

An assessment should be made of the market share, positioning, strengths and weaknesses of competitive products. The technology or product should be thoroughly compared with competitive products on the basis of price, quality, performance, service and other relevant features. The analysis should include a discussion of whether and to what extent market penetration will be achieved at the expense of, or in conjunction with, the competition. If the proposed product will threaten the existing or expected market share of competitors, thought should also be given to their defensive reactions and how best to counteract them.

## Manufacturing Operations

This section should focus on an overview of the intended manufacturing process, including the degree of in-house versus contracted manufacturing; elements affecting production costs; sources of components, raw materials and supplies; anticipated quality and production control systems; and perhaps most importantly, anything unique to the manufacturing process.

#### **Business Organization**

The amount of discussion about the business organization should vary with the size and development stage of the company. For a start-up primarily engaged in early product development, this section should address the current organizational structure, reporting relationships and management responsibilities; identify existing or projected managerial gaps; and provide an overall sense of the personnel needs and the organization's growth over time. The wage and salary structure for all employees and any incentive or stock ownership/option programs should be identified and verified as consistent with start-up and industry norms. If the use of consultants, part-time or contract assistance is contemplated, it should also be discussed. Outside professionals, such as law and accountancy firms, who have agreed to serve the start-up, as well as respected individuals who are willing to serve on the Board of Directors, should all be identified as they are positive sources of credibility and support for the venture.

#### Financial Statements and Projections

The financial forecasts contained in one of the business plan Appendices should include balance sheets, income statements and cash flow projections for five years, with the information presented monthly for the first year and quarterly thereafter. Within the business plan itself there should be a summary of the key aspects of the financial forecasts. In addition, it is useful to summarize the expected use of the funds to be raised in the current financing. Financial assumptions should be discussed at sufficient length to convey an understanding of how they were determined. At a minimum, the logic for determining the following should be included: sales, market share, prices, expenses, accounts payable payments, accounts receivable collections, inventory turnover, margins, taxes, and useful life of equipment.

#### **Appendices**

The following, where applicable, should be included in an Appendix to the business plan:

- 1) Resumes of key managers.
- 2) Photographs or drawings of the product.
- 3) A list of professional references.
- 4) Market studies or third party evaluations.
- 5) Patent histories.
- 6) A brief summary of any material contracts.
- 7) Articles in trade journals or general media.
- 8) Charts, graphs or tables which amplify the text of the plan.

#### **Technical Brief Outline – Screen 3**

- 1) Technology Description
  - a. Description of software and hardware architecture (if software)
- 2) Technical feasibility
  - b. Copy of market requirements for proof of concept or prototype
- 3) Patent history and plan
  - c. Schedule of any proprietary or patented processes or materials
- 4) Commercialization issues
  - d. Scaling production
  - e. Performance scaling
  - f. Resource requirements
- 5) Project Planning
- 6) Technical team
- 7) Technical resources required

#### **Technical Brief Scorecard**

- 1) State of feasibility (demonstrable)
- 2) Science and technical merit adequacy of the objectives
- 3) Potential of the proposed research for technical innovation
- 4) Qualification of patent, staff and commercialization required
- 5) Suitability of facilities

#### Scorecard - Screen 3

b.

Performance scaling

#### Rural Innovation Fund Screen Three Due Diligence Date Applicant Applicant Number Criteria Weighting Score Notes Business Due Diligence 60% Corporate Organization (where appropriate per program eligibility) Capital structure Bylaws and amendments b. Business materials and contracts Contracts pertaining to royalties to be paid or received Material agreements Insurance policies Intellectual Property Management Team Org chart Projected headcount by function Bios of key personnel Roles ii. Experience iii. Relationship with company iv. Compensation agreements Compensation d. Financial Model 5 year forecast b. Assumptions / modeling considerations i. Major growth drivers and prospects ii. Predictability of business iii. Industry and company pricing policies iv. Economic assumptions underlying projections v. External financing arrangement assumptions 12 month budget review C. Product / Technology Description Value proposition - what problem are you going to solve and why will someone pay money for it Current state of technology i. Commercialization issues Project plan Market Addressable market size b. Entry strategy i. Lead customers Channel Product pricing (approximate) Company positioning relative to competitive variables Competition (description of the landscape within market seament) How is problem being solved today Who is solving it b. Why is this approach better? **Technical Due Diligence** 40% Technology Description a. Description of software and hardware architecture (if software) Technical feasibility Copy of market requirements for proof of concept or 3) Patent history and plan Schedule of any proprietary or patented processes or materials Commercialization issues Scaling production a.

# **Contact Information**

For more information regarding the Rural Innovation Fund or any other applied program funds contact:

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# **Chapter 3 - R&D Voucher Fund**

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# **Program Goals**

To expand knowledge-driven R&D capacity in Kentucky by investing in innovation and public/private partnerships that lead to new or valued-added companies, jobs, technology, products, processes or services.

# **Program Purpose**

The purpose of the Kentucky Research and Development Voucher Program is to:

- a) Accelerate knowledge transfer and technological innovation, improve economic competitiveness, and spur economic growth in Kentucky-based companies;
- b) Support research and development activities that have clear potential to lead to commercially successful products, processes, or services within a reasonable period of time;
- c) Stimulate growth-oriented enterprises within the Commonwealth;
- d) Encourage partnerships and collaborative projects between private enterprises, Kentucky's universities, and research organizations; and,
- e) Promote research and development activities that are market-oriented.

# **Application Criteria**

- a) The application criteria and application process are subject to the following limitations. The proposed research and development project shall be likely to:
- b) Produce a measurable result and be technically sound;
- c) Lead to innovative technology or new knowledge;
- d) Lead to commercially successful products, processes, or services within a reasonable period of time;
- e) Show significant potential for stimulating economic growth and a reasonable probability of enhancing employment opportunities within the Commonwealth.

The applicant shall provide an application that includes, but is not limited to the following information:

- a) Verification that the applicant is an eligible company that meets the definition of a Kentucky-based company and medium-size company or small company;
- b) A technical research plan that is sufficient for outside expert review;
- c) A detailed financial analysis that includes the commitment of resources by the applicant and others;
- d) Sufficient detail concerning proposed project partners, type and amount of work to be performed by each partner, and expected product or service with estimated costs to be reflected in the negotiated contract or agreement, and a statement of the economic development potential of the project.

In relation to the R&D Voucher Program, CPE retains, but is not limited to the following rights:

- a) The right to approve the application criteria, the process of submission of an application, and the structure and type of outside expertise or peer review used in the application review process for the Kentucky Research and Development Voucher Program.
- b) The right to approve the guidelines as to when and how all areas of the state will be notified about the availability of the R&D Vouchers.
- c) The right to recommend overall program performance indicators and benchmarks for measuring success of the R&D Vouchers to the Kentucky Innovation Commission, the Governor's Office, and the General Assembly.

# **Eligibility**

Small and medium-size Kentucky-based companies that seek to undertake research and development work in partnership with universities in the Commonwealth. (see definitions in Appendix A).

#### **Investment Guidelines**

Project funding in the Kentucky Research and Development Voucher Fund Program has the following limitations:

- 1. Voucher award funds from the state fund shall be expended within the university under contract:
- 2. The maximum amount of voucher funds awarded to a qualified company shall not exceed one hundred thousand dollars (\$100,000) each year for two (2) years, equal to a maximum of two hundred thousand dollars (\$200,000); and,
- 3. At a minimum, the qualified company shall match the project award by a one-to-one dollar ratio for each year of the project. The science and technology organization has sole discretion to authorize an in-kind contribution in lieu of part of the industry match if the science and technology organization determines that the financial limitations of the qualified company warrant this authorization.

# Matching

As described above, companies must match investment on a one-to-one dollar ratio. Further, the intent is to have the company make at least 25% of the match in cash, the remaining match can come from cash in kind sources. Universities are able to provide matching dollars and services above and beyond the investment amount awarded by KSTC. Matching in kind dollars from universities will require a budget to account for dollars being paid in versus in kind services. In kind services cannot be comprised of investment dollars from KSTC. No funds that have been generated through any state source shall be used as matching funds.

#### **Investment Preconditions**

Prior to receiving certification authorized from KSTC investment funding, the qualified company shall:

- a) Negotiate an agreement and funding contract with a university in the Commonwealth that is satisfactory to KSTC, to undertake the research and development work; and
- b) Provide assurance to KSTC that the university and the qualified company have negotiated the ownership and disposition of patents, royalties, all other intellectual property rights, and equity or related position relating to the contract between the qualifying company and the university.

Prior to certifying a qualified company, KSTC may negotiate with the qualified company the ownership and disposition of patents, royalties, all other intellectual property rights, and an equity or related position on behalf of the Kentucky Research and Development Voucher Fund for the sole purpose of reinvesting and sustaining a revolving fund to carry out the related provisions of the Kentucky Innovation Act.

When CPE is satisfied that KSTC has certified a qualified company as defined in the Kentucky Innovation Act, CPE shall issue a voucher to the certified company for the requested amount and shall pay the face amount of the voucher to the university receiving the voucher from the company (upon the university's presentation of the voucher to CPE). CPE shall be entitled to rely upon KSTC's certification and authorization of voucher funding when issuing the voucher and disbursing the award amount.

# **Application Process**

The application process for the R&D Voucher fund is similar to that of the Rural Innovation Fund, but requires a more strenuous effort in the business plan and due diligence screen. Companies are expected to have a fully developed business plan containing detailed market focus and research. This better aligns investment criteria with company lifecycle.

# **Application -- Screen 1**

#### **Application Outline**

#### I. Cover Sheet

- a) Contact information
- b) Brief description of proposal (25 words or less)
- c) Amount of funds requested
- d) Applied program
- e) Legal structure
- f) Legal address
- g) Number of employees

## II. Narrative (not to exceed one page per answer)

1) Briefly describe your company. How long have you been in existence? What products and markets do you make/serve? How many employees do you have?

- 2) Briefly describe the technology and its innovative application. Describe the state of the technology relative to being ready to sell. Identify the challenges of selling the technology.
- 3) What market are you targeting for the technology? How large is the market? How do you expect to serve that market?
- 4) Are you working with anyone to help develop this technology? Describe your relationship and provide all background information regarding the organization or individual.

#### Scorecard – Screen 1

R&D Voucher Fund		
Screen One		
Application Fit		
Date		
Applicant		
Applicant Number		
Criteria	Waighting Soor	to (4 Notes
Criteria	Weighting Scor	e (1-Notes 0)
1 Legal structure	Requirement	Must be KY based
2 Knowledge Driven	Requirement	Project includes innovative technology
3 Small (<50 employees)	Requirement	<150 employees
4 Development partnership	Requirement	With university
5 Negotiated Agreement with University	Requirement	Royality, IPR, equity
6 1:1 Matching	Requirement	25% must come from Company
7 Business application	60%	Subjective assessment of the business practicality
		of the project and overall impact on economy
8 Technical merit	40%	Subjective assessment of the technical soundness
		of the project and its uniqueness and innovation

# **Example Application**

# **R&D Voucher Application**

Contact Information	Application Identification Number (for KSTC use only)
Name of Applicant	(16) KSTE dSE SHIY)
Name of Company	Amount of funds applying for
Address	Work Phone
	Home Phone
Tax Identification Number	Fax
Legal Structure	Email
Date of Incorporation	Disclosure
Number of Employees	Are you a lobbyist or related to one? If so, what organizations are you or your relations affiliated with?
Company Headquarters	
Brief Description of proposal	(25 words or less)
Authorized Signature	
Title	Date
	SS 900 MW

Complete the following questions. You may use additional pages, but no more than one page per question (total of 4). Staple additional pages to the application. All work must be typed.

- 1. Briefly describe your company. How long have you been in existence? What products and markets do you make/serve? How many employees do you have?
- 2. Briefly describe the technology and its innovative application.

  Describe the state of the technology relative to being ready to sell.

  Identify the challenges to selling the technology.
- 3. What market are you targeting for the technology? How large is the market? How do you expect to serve that market?
- 4. Are you working with anyone to help develop this technology? Describe your relationship and provide all background information regarding the organization or individual.



#### **Interview Outline – Screen 2**

Applicants should be prepared to discuss their application in greater detail and specifically focusing on the following business and technical issues:

- 1) Business
  - a. Company history
  - b. Product description
  - c. Addressable market
  - d. Competitive landscape
  - e. Value proposition
- 2) Technical
  - a. Status of technology
  - b. Scope of underlying technology
  - c. Commercialization issues
- 3) Development partnership

#### Scorecard - Screen 2

R&D Voucher Fund Screen Two			
Meeting and Presentation			
Date Applicant Applicant Number			
Criteria	Weighting	Score 10)	(1-Notes
1 Business Fit	60%		
<ul> <li>Company history</li> </ul>			How much has been invested, what are the goals?
<ul> <li>Product description</li> </ul>			Clearly articulate what the technology will become
<ul> <li>Addressable market</li> </ul>			How large is the market and what is the growth rate
- Competitive landscape			Who gets displaced? What is unique? What will their response be?
- Value proposition			Who is the buyer and what is their behavior? How do they buy and why would they buy yours?
- Team			Bios, track record and synergies.
- Financial models			How sophisticated?
2 Technical merit	30%		
- Status of technology			How far along is development? What are the major hurdles?
- Scope of underlying tech			Innovativeness of technology. Is this groundbreaking or add- on?
- Commercialization issues			Will it scale? What are the performacne issues? Are there manufacturing considerations? Cost considerations?
3 Development partnership	10%		Details of partnership
	100%		

#### **Business Plan Outline – Screen 3**

#### **Executive Summary (2 Pages)**

The executive summary is a concise narrative of the business plan and therefore should be written once the complete plan is done (2 pages).

- Company origin
- The product and underlying technology including the company's competitive advantage or unique contribution
- Market potential
- Team bios and track record
- Amount of capital sought
- Other factors important to the success

#### **Company Description**

Convey sense of history and goals of the company. How was the product originated? Who were the originators? Why is the product or technology considered worthwhile? What steps have been taken to establish a company around the idea? Include a summary of the company's principal objectives.

#### Management

Identify key members of the management team, describe their responsibilities, and set forth their relevant experience and accomplishments. Complete resumes should be attached in an appendix. Focus on unique abilities of each player and the synergy created by the combination of talent. Gaps in skills and strategies to supplement those gaps should be noted.

#### The Product

Describe what the product is or will be relative to competitive products and why the product has promise to penetrate the existing or developing market. Describe product use and function and what needs it is intended to serve. Describe distinctive features and the advantages and drawbacks of those features. Address attributes, cost, quality and reliability and price of the product. There should be detailed discussion of where the project stands and what is necessary to complete development, including time and cost schedules for achieving the entire project and various interim milestones. Where there is technical development, the nature, status and scope of underlying technology is necessary to assess technical risk inherent in the development process.

#### **Marketing and Sales**

Identify, describe and analyze the target market. The size, growth rate and the forces (or needs) driving it and how it is segmented should be discussed. Would commissioning an independent market study help validate the size and growth? Provide 5-year market forecasts as they relate to industry trends, new technologies, and evolving customer needs and overlap with complementary markets. Describe the target purchaser, where they are located and what motivates their buying decisions. Where do they fit in the value chain?

What is the significance (ranking) of price, quality, performance, sales method, service and warranty and other relevant criteria?

#### Competition

An assessment should be made of the market share, positioning, strengths and weaknesses of competitive products. Some analysis should be provided of the managerial and financial strengths/weaknesses of the companies that produce such products and their recent trends in sales, market share and profitability. The technology or product should be thoroughly compared with competitive products on the basis of price, quality, performance, service and other relevant features. The analysis should include a discussion of whether and to what extent market penetration will be achieved at the expense of, or in conjunction with, the competition. If the proposed product will threaten the existing or expected market share of competitors, thought should also be given to their defensive reactions and how best to counteract them.

#### **Projected Market Penetration**

This section should indicate a description, often graphically illustrated with a tabular presentation of the product's estimated market share over a five-year period, expressed in percentages, units and dollars. This estimate should be based on the market size and growth trends, an analysis of the competitive products, and an assessment of the product acceptance and market penetration over time. This will need to be followed by a description of how and why such sales penetration will be accomplished, including a description of intended product pricing, distribution practices, sales policies and customer support, advertising/public relations and product positioning. Any significant cost difference with competing products should be justified on the basis of distinctive features. A discussion should be included of the expected price movement over time in the face of competitive pressures and technological innovations, and the expected effect on margins. The sales and distribution channels should be addressed, including the extent to which the company envisions using its own sales force; to what extent independent sales representatives, agents and distributors will be utilized; and how the two systems will interact.

#### **Manufacturing Operations**

This section should focus on an overview of the intended manufacturing process, including the degree of in-house versus contracted manufacturing; elements affecting production costs; sources of components, raw materials and supplies; anticipated quality and production control systems; and perhaps most importantly, anything unique to the manufacturing process.

#### **Business Organization**

The amount of discussion on the business organization should vary with the size and development stage of the company. For a start-up primarily engaged in early product development, this section should address the current organizational structure, reporting relationships and management responsibilities; identify existing or projected managerial gaps; and provide an overall sense of the personnel needs and the organization's growth over time. The wage and salary structure for all employees and any incentive or stock

ownership/option programs should be identified and verified as consistent with start-up and industry norms. If the use of consultants, part-time or contract assistance is contemplated, it should also be discussed. Outside professionals, such as law and accountancy firms, who have agreed to act for the start-up, as well as respected individuals who are willing to serve on the Board of Directors, should all be identified as they are positive sources of credibility and support for the venture.

#### **Financial Statements and Projections**

The financial forecasts contained in one of the business plan Appendices should include balance sheets, income statements and cash flow projections for five years, with the information presented monthly for the first year and quarterly thereafter. Within the business plan itself there should be a summary of the key aspects of the financial forecasts. This might include the total cash requirements, when positive cash flow will be obtained and the expected growth in revenues, profit margins and shareholders' equity.

In addition, it is useful to summarize the expected use of the funds to be raised in the current financing. Financial assumptions should be discussed at sufficient length to convey an understanding of how they were determined. At a minimum, the logic for determining the following should be included: sales, market share, prices, expenses, accounts payable payments, accounts receivable collections, inventory turnover, margins, taxes, and useful life of equipment.

#### Appendices

The following, where applicable, should be included in an Appendix to the business plan:

- 1) Financial statement forecasts.
- 2) Resumes of key managers.
- 3) Photographs or drawings of the product.
- 4) A list of professional references.
- 5) Market studies or third party evaluations.
- 6) Patent histories.
- 7) A brief summary of any material contracts.
- 8) Articles in trade journals or general media.
- 9) Charts, graphs or tables, which amplify the text of the plan.

# Scorecard - Screen 3

software)

prototype

materials

Technical feasibility

Patent history and plan

Commercialization issues Scaling production Performance scaling

Copy of market requirements for proof of concept or

Schedule of any proprietary or patented processes or

2)

3)

#### R&D Voucher Fund

Screen Three Due Diligence

Date Applicant

Crite	eria			Weighting	Score (1-10)	Note
	Bus	siness	Due Diligence	60%	(1-10)	
	1)		Corporate Organization (where appropriate per program			
			eligibility)			
		a.	Capital structure			
		b.	Bylaws and amendments			
	2)		Business materials and contracts			
		a.	Contracts pertaining to royalties to be paid or received			
		b.	Material agreements			
		C.	Insurance policies			
	3)		Intellectual Property			
	4)		Management Team			
	,	a.	Org chart			
		b.	Projected headcount by function			
		C.	Bios of key personnel			
			Roles			
		ii.	Experience			
			Relationship with company			
			Compensation agreements			
		d.	Compensation			
	5)		Financial Model			
	,	a.	5 year forecast			
		b.	Assumptions / modeling considerations			
		i.	Major growth drivers and prospects			
			Predictability of business			
		iii.	Industry and company pricing policies			
			Economic assumptions underlying projections			
			External financing arrangement assumptions			
		C.	12 month budget review			
	6)		Product / Technology Description			
	,	a.	Value proposition - what problem are you going to solve			
			and why will someone pay money for it			
		b.	Current state of technology			
		i.	Commercialization issues			
		ii.	Project plan			
	7)		Market			
	,	a.	Addressable market size			
		b.	Entry strategy			
		i.	Lead customers			
			Channel			
		C.	Product pricing (approximate)			
		d.	Company positioning relative to competitive variables			
	8)		Competition (description of the landscape within market			
	-,		segment)			
		a.	How is problem being solved today			
		b.	Who is solving it			
		C.	Why is this approach better?			
	Tec		Due Diligence	40%		
	1)		Technology Description			
	,	a.	Description of software and hardware architecture (if			
			6 )			

#### **Technical Brief Outline – Screen 3**

- 1) Technology description
  - a. Description of software and hardware architecture (if software)
- 2) Technical feasibility
  - a. Copy of market requirements for proof of concept or prototype
- 3) Patent history and plan
  - a. Schedule of any proprietary or patented processes or materials
- 4) Commercialization issues
  - a. Scaling production
  - b. Performance scaling
  - c. Resource requirements
- 5) Project Planning
- 6) Technical team
- 7) Technical resources required

#### **Technical Brief Scorecard**

- 1) State of feasibility (demonstrable)
- 2) Science and technical merit adequacy of the objectives
- 3) Potential of the proposed research for technical innovation
- 4) Qualification of patent, staff and commercialization challenges
- 5) Suitability of facilities

## **Contact Information**

For more information regarding the R&D Voucher Fund or any other applied program funds contact:

Jim Clifton, Executive Director
The Innovation Group
Kentucky Science and Technology Corporation
jclifton@kstc.com
859.233.3502 x229
www.kstc.com

## **Chapter 4 - Kentucky Commercialization Fund**

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## **Program Goals**

Provide "seed" funds to universities for development of promising innovative technologies and infrastructure that enhances the institution's ability to commercialize promising technologies and create new knowledge-driven companies.

## **Program Purpose**

The Kentucky Commercialization Fund Program was created to provide seed funding for the development of promising technologies emerging from Kentucky's universities. The purposes of the Kentucky Commercialization Fund Program are to:

- a) Accelerate knowledge transfer and technological innovation, improve economic competitiveness, and spur economic growth in Kentucky-based companies;
- b) Provide seed funding for promising technologies developed in Kentucky's universities;
- c) Support promising technologies with commercial potential that are in their early stages of development;
- d) Promote technologies and resources offered by Kentucky's postsecondary institutions to private enterprises; and
- e) Support the formation and organization of private enterprise that advances commercial applications based on a university's research and development work.

## **Application Criteria**

## **Eligibility**

Kentucky's universities are eligible to submit KCF applications.

#### **Investment**

#### **Preconditions**

Prior to final approval of fund awards, the university submitting the proposal shall provide assurance to KSTC that the collaborating parties have adequately addressed the ownership and disposition of patents, royalties, and all other intellectual property rights, and equity or related position relating to the contract between the qualifying company and a partnering entity.

Prior to approval of funding awards, KSTC may negotiate with the university the ownership and disposition of patents, royalties, all other intellectual property rights, and an equity or related position on behalf of the Kentucky commercialization fund for the sole purpose of reinvesting and sustaining a revolving fund to carry out the provisions of KCF.

#### **Investment Levels**

Project funding in the Kentucky Commercialization Fund Program shall have the following limitations:

- 1) The maximum amount of funding for a project award shall not exceed seventy-five thousand dollars (\$75,000) each year up to three (3) years, equal to a maximum of two hundred twenty-five thousand dollars (\$225,000); and
- 2) The University of Kentucky and the University of Louisville shall be awarded together no more than seventy percent (70%) of fund awards.

When the CPE has approved the fund recipients based upon KSTC's recommendations, the CPE shall disburse the investment amounts directly to the universities responsible for the proposed projects.

## **Application Process**

The application process for the Kentucky Commercialization Fund is slightly different than the other programs to account for the focus on institutional applicants. All applications will come directly from the university system and will have been approved by internal processes at the applicant institution. Applicants will have to complete an application, meet face to face with KSTC representatives and then be judged in an external peer review process.

#### **Application -- Screen 1**

## **Application Outline**

#### I. Cover Sheet

- 1) Contact information
- 2) Brief description of proposal (25 words or less)
- 3) Amount of funds requested
- 4) Applied program
- 5) Legal structure
- 6) Legal address
- 7) Number of employees

#### II. Narrative (not to exceed one page per question)

- 1) Briefly describe the technology or commercialization enabling investment.
- 2) How will this investment enable the institution to better commercialize technologies? How is this being accomplished today?
- 3) Are you working with anyone to help develop this technology /infrastructure? Describe your relationship and provide all background information regarding the organization or individual.

## Scorecard – Screen 1

Kentucky Commercialization Fund Screen One Application Fit			
Date Applicant Applicant Number			
Criteria	Weighting	Score 10)	(1-Notes
1 Approved by university system	Requirement		
2 Knowledge Driven	Requirement		Project includes innovative technology / infrastructure
3 Commercialization merit	100%		Subjective assessment of the commercialization practicality of the project and overall impact on tech transfer infrastructure

## **Example Application**

# Application Identification Number Contact Information (for KSTC use only) **Name of Applicant** Amount of funds applying for Name of University Kentucky Commercialization Fund Application **Address Work Phone Home Phone** Fax **Email Disclosure** Are you a lobbyist or related to one? If so, what organizations are you or your relations affiliated with? Brief Description of proposal (25 words or less) Authorized Signature Title Date

# Complete the following questions. You may use additional pages, but no more than one page per question (total of 4). Staple additional pages to the application. All work must be typed

 Briefly describe the technology or commercialization enabling investment.

2. How will this investment enable the institution to better commercialize technologies? How is this being accomplished today?

3. Are you working with anyone to help develop this technology? Describe your relationship and provide all background information regarding the organization or individual.



#### **Interview Outline -- Screen 2**

Applicants should be prepared to discuss their application in greater detail and specifically focusing on the following business and technical issues:

- 1) Business
  - a) Company history
  - b) Product description
  - c) Addressable market
  - d) Competitive landscape
  - e) Value proposition
- 2) Technical
  - a) Status of technology
  - b) Scope of underlying technology
  - c) Commercialization issues
- 3) Development partnership

#### Scorecard – Screen 2

Scorecaru – Screen 2							
Screen	ucky Commercializa n Two g and Presentation	ation Fund	I				
Date Applica Applica	nt nt Number						
Criteria		Weighting	Score 10)	(1-Notes			
1 2 3	Prcialization Impact Description of project Benefits to commercialization Cost of implementation Payoff						

#### **External Peer Review Process**

KSTC will contract with external experts to assist in judging the overall value of the application relative to university and system needs. This expertise will be focused on institutions of higher learning with specific experience in supporting successful technology transfer and commercialization.

#### **Contact Information**

For more information regarding the Kentucky Commercialization Fund or any other applied program funds contact:

Jim Clifton, Executive Director
The Innovation Group
Kentucky Science and Technology Corporation
jclifton@kstc.com
859.233.3502 x229
www.kstc.com

# **Appendices**

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## **Appendix A - Definitions**

As used in the Kentucky Innovation Act, unless the context indicates otherwise:

- 1) "Applied research" means those research activities occurring at universities and in private enterprises that have potential commercial application;
- 2) "Cluster" means a geographically bound concentration of similar, related, or complementary businesses with active channels for business transactions, communications, and dialogue, that share specialized infrastructure, labor markets, and services, and that are faced with common opportunities and threats;
- 3) "Commission" means the Kentucky Innovation Commission;
- 4) "Commonwealth" means the Commonwealth of Kentucky;
- 5) "Council" means the Council on Postsecondary Education;
- 6) "Eligible company" means any corporation, limited liability company, partnership, registered limited liability partnership, sole proprietorship, business trust, person, group, or other entity engaged in non-retail commerce, agribusiness, trade, or manufacturing;
- 7) "Immediate family members" means:
  - a) Spouse and parents-in-law;
  - b) Parents and grandparents;
  - c) Children and their spouses; and,
  - d) Siblings and their spouses;
- 8) "Kentucky-based company" means a business with its principal place of business in Kentucky or no less than fifty percent (50%) of its property and payroll located in Kentucky;
- 9) "Knowledge-based" means driven by knowledge, innovation, and speed;
- 10) "Medium-size company" means a business with fifty-one (51) to one hundred fifty (150) employees;
- 11) "Qualified company" means an eligible company that may be awarded a funding voucher pending certification;
- 12) "Rural" means any county other than Boone, Campbell, Fayette, Jefferson or Kenton counties;

- 13) "Science and technology organization" means an independent, nonprofit or quasi-governmental organization, with a statewide mission, which has a demonstrated history of managing complicated programs in the areas of entrepreneurial innovation, science, and technology advancement. The state has designated Kentucky Science and Technology Corporation as the science and technology organization as referred to in KIA;
- 14) "Seed funding" means financing that is provided for early-stage development, refinement, and commercialization of a product, process, or innovation through continuing applied research, advancing the patent process, determining commercial and market potential, or moving research toward development of a prototype; and;
- 15) "Small company" means a firm with fifty (50) or fewer employees.

## **Appendix B – The Kentucky Innovation Commission**

The General Assembly finds that the general welfare and material well-being of the citizens of the Commonwealth depend on immediate action to develop a strong, entrepreneurial economy, characterized by knowledge, innovation, and speed and that it is in the best interest of the Commonwealth to promote research, innovation, and high-technology enterprises that utilize the higher-order skills of an educated workforce. The provisions in this Act shall be liberally construed and applied to advance public purposes.

The Kentucky Innovation Commission is designed to operate as a common strategic umbrella to advocate for the use of federal, state, local government, and private sector funds to create research and development projects, modernize manufacturing facilities, and promote knowledge-based, technology sectors and companies in the Commonwealth.

Quantitative and qualitative indicators of impact of the Kentucky Innovation Act may include but are not limited to the following:

- 1) Kentucky companies modernizing to become more technologically innovative and globally competitive;
- 2) Research and development initiatives undertaken at Kentucky universities with federal, state, or private funds;
- 3) Educational attainment in areas that support the workforce needs of information technology and high-growth knowledge industries;
- 4) High-technology sectors and companies moving to and operating in the state;
- 5) Patents filed for technology or knowledge-based commercial products, processes, or services;
- 6) Businesses using electronic commerce and the communications infrastructure access capacity for Kentucky businesses; and
- 7) Growth in corporate headquarters, research and development centers, high-income employees, and clustering of related technology industries and suppliers.

## **Appendix C - Disclaimers**

No member of the council or the science and technology organization or other administering entity, or their employees or outside experts or their immediate family members, shall directly or indirectly financially benefit in any investment, contract, or agreement under the programs.

All records related to the administration of the programs created under the Kentucky Innovation Act shall be deemed property of the council and shall be deemed open records and subject to public inspection under KRS 61.870 to 61.884. Any research that involves or is a patent, trade secret, or other legally protectable interest shall be exempt from inspection until such time as the intellectual property rights have been fully protected.

The Kentucky Commercialization Fund may receive state appropriations, gifts, grants, federal funds, revolving funds, and any other funds both public and private. Moneys deposited in the fund shall be disbursed by the State Treasurer upon the warrant of the secretary of the Finance and Administration Cabinet. Any unallocated or unencumbered balances in the fund shall be invested as provided in KRS 42.500(9), and any income earned from the investments along with the unallotted or unencumbered balances in the fund shall not lapse, and shall be deemed a trust and agency account and made available solely for the purposes and benefits of the Kentucky Commercialization Fund Program.

KSTC agrees that the CPE, the Finance and Administration Cabinet, the Auditor of Public Accounts, and the Legislative Research Commission, or their duly authorized representatives, shall have access to any books, documents, papers, records, or other evidence, which are directly pertinent to this contract for the purpose of financial audit or program review. Furthermore, any books, documents, paper records, or other evidence provided to the Council, the Finance and Administration Cabinet, the Auditor of Public Accounts, or the Legislative Research Commission which are directly pertinent to the Contract shall be subject to public disclosure regardless of the proprietary nature of the information, unless specific categories of information are identified and exempted and agreed to by the Secretary of the Finance and Administration Cabinet as meeting the provisions of KRS 61.878(1) prior to the execution of the Memorandum, or if the excluded information meets the provisions of KRS 164.6014(6). The Secretary of the Finance and Administration shall not restrict the public release of any information, which would otherwise be subject to public release if a state government agency was providing the services.

The Kentucky Science and Technology Corporation shall use its best efforts to administer the Four Programs in close cooperation with the Council, with the Commissioner for the New Economy, with the Kentucky Innovation Commission, with the Cabinet for Economic Development, with the universities and colleges in Kentucky, and with other relevant parties within Kentucky's state government and public sector. The Corporation shall work especially closely with the entities named in the sentence above in regards to the development and implementation of performance indicators and benchmarks for measuring progress for the Four Programs.